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Before the Arizona Corporation Commission

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Doug Little, Chairman
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Tom Forese
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In the matter of the application of Epcor Water Arizona Inc.) Docket No. WS-01303A-16-0145
for a determination of the current fair value of its utility)
plant and property and for increases/decreases in its rates)
and charges based thereon for utility services by its)
Agua Fria, Anthem, Mohave, Sun City, and Sun City West)
wastewater districts and for consideration of consolidation)
and deconsolidation proposals.)

This filing includes my testimony and some of my questions for the next hearing in this case.

Respectfully submitted by mail on November 9, 2016.

Frederick G. Botha

Arizona Corporation Commission
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Several of the same serious mistakes that were made when water and wastewater rates were raised significantly in 2008 are being made again in this consolidation/deconsolidation case.

In 2008 the Agua Fria district was mistakenly made up of disparate communities that were far apart and did not share the same facilities for economies of scale.

There were far too few consumers within the Agua Fria district to carry the burden of both the high costs of water and wastewater - especially those costs associated with the new North West Valley processing plant, which should not have been passed on to current consumers but partly refinanced until they could be paid for by new consumers.

Rates for Agua Fria were set at artificially low levels before 2008 and no prior information was given of possible future increases until they were introduced in 2008.

When Anthem realized that they were paying too much for facilities that they did not use, they attempted to opt out of the district and were successful. To make this possible, the Chairman of the ACC even overrode the decision of the administrative law judge and now according to a senior Epcor official, he regrets his decision - at no cost to himself, of course, but at significant cost to Agua Fria.

Just as disparate communities were forced together before 2008 in the Agua Fria district, the much larger Sun City and Sun City West communities, with facilities over fifty and thirty years old, are now in 2016 mistakenly being forced to combine with those in the Agua Fria district.

This attempt is not to provide any reduction of costs through significant economies of scale but solely to reduce average rates by increasing numbers of consumers. The impact of the huge capital costs of upgrading facilities in Sun City and Sun City West on the costs of the communities in Agua Fria, some of whose facilities are much newer, is conveniently being ignored. The focus is entirely on theoretical ways of reducing average costs by playing with numbers without addressing specific increases and decreases.

Just as there were too few consumers in Agua Fria in 2008 to carry the large costs, there now is no shortage of consumers to carry the costs but no attempt is being made at all to apportion costs according to usage of facilities. Instead, it is hoped that by averaging costs some consumers will be appeased by paying a lower rate and others by only a marginally higher rate. It is not surprising that Agua Fria consumers support consolidation when they are paying the highest rates but how many of them realize they will be expected to pay part of \$174 million for future upgrades that include only \$3 million upgrades for themselves?

Just as no figures were given before 2008 to warn of the impending rate increases to follow, neither Epcor or RUCO is assisting consumers now by providing any estimates at all of what combined water and waste cost scenarios could be over the next ten years.

Instead Epcor is providing different scenarios of what their costs were in 2015 to the communities and these costs are completely unrelated to what consumers can expect in the future. What many consumers find particularly surprising is the weak excuse by Epcor for not providing such combined water and wastewater costs because they were not asked to provide such costs by RUCO, who asked only for wastewater costs.

Many questions need to be asked and answered before consolidation or deconsolidation.

Why was Agua Fria not set up as a viable district of communities, capable of paying fair rates for their water and wastewater?

What corrections and changes need to be made now for these costly mistakes, especially for a community such as Russell Ranch?

If high combined total costs of both water and wastewater led to the protest and petition that Diane Smith and her team initiated, why do Epcor not provide the same estimated costs of both water and wastewater for the next ten years to enable consumers to evaluate the impact of the proposed capital upgrades on consolidation and deconsolidation?

What value are Epcor's costs of wastewater in 2015 test year in estimating future total costs of both water and wastewater in the next ten years?

If Epcor expect consumers to make these estimates themselves without access to the information and the speed of Epcor's computers, how many of their own employees are capable of making similar estimates without the same information and computing facilities?

To be consistent, if Epcor are not prepared to estimate changing variables to forecast future combined total costs of water and wastewater, why are they prepared to use the same variables to make forecasts about their own capital expenditures and costs in the future?

At a recent meeting held at Corte Bella to discuss the results of the test year 2015 and to update residents on their options, Shawn Bradford, a senior executive at Epcor, was asked if Epcor would provide the far more valuable total future water and wastewater costs and he said that he would see what they could do. Does this offer still hold?

Are consumers and intervenors in this case entitled to request Epcor and RUCO to provide specific information for the case? If so, when will such opportunities be provided?

To be consistent, if Epcor easily provide consumers with accounts receivable and billing information on their website, why do they not also provide cost estimates for water and wastewater for the next ten years on their website, when they have the information and facilities to do so?

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